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171002Z Apr 06

UNCLAS SECTION 01 OF 04 ANKARA 002069

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E.O. 12958: N/A

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SUBJECT: Turkish Agriculture Import Policies

Sensitive but Unclassified. Not for Internet Distribution.

1. (SBU) Summary. Turkey is a major market for U.S. bulk commodities and other raw materials important to the domestic processing sectors. Nonetheless, Turkey continues to restrict trade in food and agricultural products with a host of tariff and non-tariff barriers. In addition to excessively high tariffs, Turkey stifles trade with non-tariff barriers including import licensing, import quotas and absorption schemes, seasonal bans on imports and the implementation of restrictive phytosanitary regulations. Systemic government involvement in the agricultural sector substantially restricts and distorts the market and denies private sector participants the ability to effectively plan business and trade decisions. End Summary.

World Trade Organization Agreement Compliance

1. (SBU) TARIFFS: In the current WTO negotiations on agriculture, it is fair to say that Turkey's position resembles that of other developing countries who insist that tariff reductions cannot be granted without large reductions in export subsidies and support on behalf of developed countries. Tariffs remain extremely high in Turkey. Turkey's 2006 Import Tariff Schedule shows no tariff reductions and some notable increases. Of current interest, the durum tariff was increased to 100 percent, the milling wheat and corn tariffs were increased to 130 percent and the soybean meal and sunflower meal tariffs were raised to 13.5 percent each. In addition, the GOT announced on March 11, 2006, that soybean and soybean meal tariff imports increased from 0 to 10 percent and 8 to 13.5 percent, respectively, at a time when the poultry and feed sector are still trying to recover from the effects of avian influenza. Officially, Turkey states that high tariffs are the only means available to protect its agricultural sector, and does not support the U.S. WTO position on market access.

2. (SBU) TARIFF-RATE QUOTAS: Turkey chose not to establish any agricultural tariff-rate quotas under the WTO. However, Turkey does have a number of TRQs in some of its bilateral trade agreements. Turkey has TRQs available to Europe for grains, livestock and beef, dairy products, vegetable oils, seeds, tomato paste, and others. (Turkey has refused to honor its EU TRQ for slaughter cattle or meat products for several years, basing this policy on the discovery of BSE in Europe.) Turkey has also referred to its corn and rice import regimes as TRQs, however these import regimes, which include domestic absorption requirements and import quota application procedures have not been announced to the WTO as TRQs.

3. (SBU) SANITARY AND PHYTOSANITARY MEASURES AND OTHER NON-TARIFF BARRIERS: Turkey is a signatory to the WTO SPS agreement and participates as a member of the Codex Alimentarius, the International Plant Protection Convention (IPPC), and the OIE. Turkey recently became a member of International Union for the Protection of New Varieties of Plants (UPOV). Turkey's Ministry of Agriculture and Rural Affairs (MARA) General Directorate of Protection and Control takes a strong interest in implementing Turkish standards for the protection and improvement of Turkish agriculture. Turkey has begun to gradually adopt EU directives and SPS standards, which has resulted in a lack of transparency as the Directorate of Protection and Control often implements new standards with no written notification or scientific basis. Turkey maintains a cumbersome import licensing system to regulate all trade in food and agricultural products, including processed products. Essentially, the system is used to restrict imports. Companies often must wait weeks or months for licenses. One products arrive at port, Turkish officials claim that all shipments must be tested, despite the fact that testing equipment may not be available. This leads to extra costs and higher demurrage costs as goods must wait in port while tests are being

conducted.

Trade Barriers for Livestock Products

14. (SBU) Imports of livestock and most products are prohibited. There have been no imports of poultry meat to Turkey since 1993 when the Government requirement that poultry meat may only be imported from foreign processing facilities that were inspected and authorized for export by Turkish Ministry of Agriculture officials. Poultry meat may be transshipped to other countries through the free trade zones.

15. (SBU) Turkey has not allowed livestock for slaughter or meat imports from any country since 1996. Outbreaks of BSE and FMD in Europe strengthened Turkey's resolve to keep livestock and meat products out of the country. Turkey has not established any animal or public health requirements for the entry of meat. Since November of 1999, Turkey has allowed the import of some breeder cattle, but restrictions on who can import, and under what circumstances, still constrains imports. The United States is currently not able to export breeding livestock to Turkey since the EU placed the United States in the 3rd BSE risk category. Note: Despite inclusion of a 19 TMT beef quota in Turkey's Custom's Union Agreement with the European Union, the EU has never been able sell beef to Turkey. End note. Turkey's BSE Committee has decided not to import any breeding cattle from category 3 countries (based on EU system). Although Turkey does permit imports of semen and embryos, its standards restrict trade in those products.

Trade Barriers for Grains and Legumes

16. (SBU) Turkey uses various mechanisms to limit imports of grains and pulses. In addition to an import licensing system that unnecessarily delays shipments and adds costs, the GOT also suspends licenses for may commodities during their harvest season without any prior notification. In addition, for some commodities, rice for example, it requires purchases of domestic crop in order to receive permission to import. For pulses, the GOT requires a minimum import price along with financial and economic information about the exporter before imports are allowed. In the end, the GOT aims to make the import system so arduous, that exporters and importers decide to forego this market.

Further Processed Products

17. (SBU) PET FOOD: The GOT established a new regulation in February 2005 requiring dioxin testing on all pet food despite the fact that domestically-produced pet food is not tested. In addition, all pet food from the United States containing ruminant ingredients other than tallow and hides and skins is banned because of BSE.

18. (SBU) MARA requires that a Health Certificate or a Certificate of Free Sale accompany all imports of processed products and packing materials that will be in contact with food. A federal or state agency stating that the product is safe for human consumption must issue the certificates. Depending on the product, more information and/or testing may be required. As FDA does not issue such certificates, and U.S. states do to varying degrees, this issue has been a significant challenge to increasing U.S. exports of high-valued processed products to Turkey. For example, the burden is on the importer to notify the exporter of this requirement, who must locate an appropriate U.S. agency to issue such a document. Again, the documentation requirements discourage exporters and importers alike. Delays occur as Turkish customs officials often question the validity of state-origin certificates.

Export Subsidies

19. (SBU) DIRECT EXPORT SUBSIDIES: Annually, Turkey's Export Subsidy program is announced in the Official Gazette (Turkey's Federal Register). In its 2006 export subsidy program, according to the February 15, 2006 Official Gazette announcement, Turkey listed cut flowers, vegetables (dehydrated and frozen, excl. potatoes) olive oil, prepared or preserved fish, preserves and pastes (incl. tomato), frozen fruits, preserves, and concentrated fruit juices, poultry meat, natural honey, eggs, chocolate, biscuits, waffles and cakes and pastas as receiving subsidies. Payments are usually delayed, or come in the form of tax offsets. In the past, and in addition to the notified subsidies, Turkey has exported grains and sugar at a loss by

paying producers prices, which are above the world market, and then selling to exporters at whatever prices the market offers.

10. (SBU) DOMESTIC SUPPORT: Turkey claimed Special and Differential Treatment relating to domestic support, notifying the WTO that its product-specific support was well within the 10 percent de minimis level, as was the Aggregate Measure of Support (AMS) calculation. As a result, none of Turkey's domestic support is subject to reduction. Turkey's domestic support is limited, however, according to letters of intent signed with the IMF as part of the overall Economic Reform Program and by domestic fiscal constraints. Domestic support payments are announced all year-round through the newspapers so the numbers are constantly changing. Information indicates that the 2006 programmed domestic support budget is 4 billion YTL, or approximately USD \$3.1 billion. Turkey's 2005 domestic support budget is reported as 3.8 billion YTL, or approximately USD \$2.4 billion. Of this total, about half is for direct income support (paid per dekar); about 20 percent (USD \$625 million) is for commodity specific premium payments; and the rest is divided up between the Livestock Development Program, tea production support services, diesel support, VAT reduction for fertilizer, and agriculture credits and alternative crop production support. For the last three years, the GOT announced direct price premiums for five commodities: soybeans, canola, olive oil, sunflower seed (for oil production) and cotton. In 2004, corn also became eligible for premium payments.

Agricultural Reform Program

11. (SBU) Six years ago, the World Bank and Turkey signed a \$600 million Agriculture Reform Implementation Loan. There were three basic components to the program; establishment of Direct Income Support, restructuring of Agricultural Sales Cooperative Unions (ASCUs), and transition out of surplus crop production. The World Bank is helping to set up the infrastructure to facilitate farmer registration and payments. While the overall goal of agricultural reform is to replace crop-linked subsidy supports with direct income support, the two components are still independent and farmers who receive direct income support payments remain eligible to receive supported price premiums. Direct income payments, according to MARA, have increased from \$900 million in 2001 to about \$2 billion in 2005.

12. (SBU) The ASCU's are subject to restructuring and are not expected to continue to offer support prices above market prices. They are likely to announce procurement prices, but due to a lack of funds and pressure from the Treasury, will not be able to operate at a loss, i.e., procure above the market price. ASCU's - especially those that currently have debt - are encouraged to liquidate assets such as processing facilities and other activities. Additionally, agricultural support prices, agricultural credit, and fertilizer subsidies will be phased out. The ASCU's will no longer be receiving subsidized loans. Irrigation waterworks will also be privatized and handed over to private water use associations. While many ASCUs have limited their procurements in recent years, that has been primarily due to market conditions that provided farmers other alternatives.

U.S. Exports to Turkey in 2005

13. (SBU) Despite significant barriers, U.S. food and agricultural exports to Turkey reached another record, surpassing \$1 billion in 2005. A portion of these exports, however, especially meat, poultry and high-value items were transshipped to other destinations, including Iraq, via Turkey's free trade zones (approximately USD \$100 million). U.S. exports to the Mersin Free Trade Zone in Turkey are expected to rise about 10 percent in 2006. U.S. exports of soybeans, cotton, vegetable oils (excluding soybean oil), feed and fodder, fruit and vegetable juices, tree nuts, pet foods, and hardwood lumber to Turkey all reached record levels in 2005.

Comment:

14. (SBU) Despite claims to the contrary, the GOT remains heavily involved in Turkish agriculture often intervening in the market through various means mainly to increase domestic prices. Unfortunately, the GOT invariably intervenes at the most inopportune times leading to excessive purchases and higher governmental stocks. Often times the GOT is forced to sell these excessive stocks on international markets at prices below the initial purchase prices. At the same time,

the government tries to placate the large numbers of Turks involved in agriculture for which alternative employment is very limited. The implications for long-term EU negotiations could be critical since the transition in the rural community will be much more difficult.

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